

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HANCOCK COUNTY FISCAL COURT**

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Hancock County Fiscal Court for fiscal year ended June 30, 2009. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds of Hancock County, Kentucky. We have also issued an unqualified opinion on compliance with requirements applicable to each of its major federal programs.

Financial Condition:

The fiscal court had net assets of \$15,148,504 as of June 30, 2009. The fiscal court had unrestricted net assets of \$2,872,468 in its governmental activities as of June 30, 2009, with total net assets of \$7,377,515. In its business-type activities, total net cash and cash equivalents were \$346,163 with total net assets of \$7,770,989. The fiscal court had total debt principal as of June 30, 2009 of \$2,384,577 with \$110,296 due within the next year.

Report Comments:

- 2009-1 The Hancock County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Bank Reconciliations, Revenues, And Payroll
- 2009-2 The Hancock County Airport Board Did Not Establish A Complete Accounting System
- 2009-3 The Hancock County Fiscal Court Did Not Implement Internal Controls Over Federal Compliance Requirements - Activities Allowed Or Unallowed/Allowable Costs And Reporting
- 2009-4 The Hancock County Airport Board Has A Lack Of Internal Controls Over Monitoring Of Activities Allowed/Allowable Costs
- 2009-5 The Hancock County Airport Board Did Not Establish Procedures To Ensure Compliance With Davis Bacon Or Debarment/Suspension Compliance Requirements

Deposits:

As of June 30, 2009, the fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hancock County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Hancock County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Jonathan Miller, Secretary
 Finance and Administration Cabinet
 Honorable Jack McCaslin, Hancock County Judge/Executive
 Members of the Hancock County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hancock County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2010, on our consideration of Hancock County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2009-1 The Hancock County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Bank Reconciliations, Revenues, And Payroll
- 2009-2 The Hancock County Airport Board Did Not Establish A Complete Accounting System
- 2009-3 The Hancock County Fiscal Court Did Not Implement Internal Controls Over Federal Compliance Requirements - Activities Allowed Or Unallowed/Allowable Costs And Reporting
- 2009-4 The Hancock County Airport Board Has A Lack Of Internal Controls Over Monitoring Of Activities Allowed/Allowable Costs
- 2009-5 The Hancock County Airport Board Did Not Establish Procedures To Ensure Compliance With Davis Bacon Or Debarment/Suspension Compliance Requirements

Respectfully submitted,



Crit Luallen
 Auditor of Public Accounts

June 7, 2010

HANCOCK COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Jack B. McCaslin	County Judge/Executive
James W. Hodskins	Magistrate
Franklin W. Estes	Magistrate
Michael C. Powers	Magistrate
Larry G. Sosh	Magistrate

Other Elected Officials:

Paul Madden Jr.	County Attorney
Trina M. Ogle	County Clerk
Noel J. Quinn	Circuit Court Clerk
Ralph D. Bozarth	Sheriff
Dennis Long	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Melissa D. Carr	County Treasurer
Stacy L. Bozarth	Occupational Tax Administrator

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HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,512,514	\$ 346,163	\$ 2,858,677
Asset Held for Resale	205,800		205,800
Receivables	364,000		364,000
Total Current Assets	3,082,314	346,163	3,428,477
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	862,102	1,627,176	2,489,278
Construction In Progress	1,058,642	6,561,799	7,620,441
Buildings	1,846,469		1,846,469
Other Equipment	705,721	30,851	736,572
Vehicles	578,079		578,079
Infrastructure	833,765		833,765
Total Noncurrent Assets	5,884,778	8,219,826	14,104,604
Total Assets	8,967,092	8,565,989	17,533,081
LIABILITIES			
Current Liabilities:			
Financing Obligations	45,296		45,296
Bond Payable		65,000	65,000
Total Current Liabilities	45,296	65,000	110,296
Noncurrent Liabilities:			
Bond Anticipation Note	1,219,341		1,219,341
Bonds Payable		730,000	730,000
Financing Obligations	324,940		324,940
Total Noncurrent Liabilities	1,544,281	730,000	2,274,281
Total Liabilities	1,589,577	795,000	2,384,577
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,295,201	7,424,826	11,720,027
Restricted For:			
Landfill Postclosure	205,309		205,309
Capital Projects	4,537		4,537
Unrestricted	2,872,468	346,163	3,218,631
Total Net Assets	\$ 7,377,515	\$ 7,770,989	\$ 15,148,504

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 2,229,937	\$ 47,863	\$ 448,102	\$ 120,000
Protection to Persons and Property	1,534,567	245,871	262,761	100,000
General Health and Sanitation	877,117	44,085		649,733
Social Services	236,298		37,375	
Recreation and Culture	354,145			
Roads	1,085,116		230,062	611,603
Airport	17,664			
Interest on Long-Term Debt	8,882			
Capital Projects	5,421			
Total Governmental Activities	6,349,147	337,819	978,300	1,481,336
Business-type Activities:				
Airport Board	47,885			542,904
Total Business-type Activities	47,885			542,904
Total Primary Government	\$ 6,397,032	\$ 337,819	\$ 978,300	\$ 2,024,240

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

In Lieu of Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	
\$ (1,613,972)	\$	\$ (1,613,972)	
(925,935)		(925,935)	
(183,299)		(183,299)	
(198,923)		(198,923)	
(354,145)		(354,145)	
(243,451)		(243,451)	
(17,664)		(17,664)	
(8,882)		(8,882)	
(5,421)		(5,421)	
(3,551,692)		(3,551,692)	
	495,019	495,019	
	495,019	495,019	
\$ (3,551,692)	\$ 495,019	\$ (3,056,673)	
181,600		181,600	
58,386		58,386	
45,007		45,007	
2,704,314		2,704,314	
118,031		118,031	
14,633		14,633	
162,389		162,389	
672,003	2,397	674,400	
24,863	7,347	32,210	
3,981,226	9,744	3,990,970	
429,534	504,763	934,297	
6,947,981	7,266,226	14,214,207	
\$ 7,377,515	\$ 7,770,989	\$ 15,148,504	

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

			Local Government			
	General Fund	Road Fund	Economic Assistance Fund	New Courthouse Fund	Non- Major Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 1,629,698	\$ 117,622	\$ 534,949	\$ 4,537	\$ 224,985	\$ 2,511,791
Total Assets	<u>1,629,698</u>	<u>117,622</u>	<u>534,949</u>	<u>4,537</u>	<u>224,985</u>	<u>2,511,791</u>
FUND BALANCES						
Reserved for:						
Encumbrances	163,755	21,596	68		1,705	187,124
Landfill Postclosure	205,309					205,309
Capital Projects				4,537		4,537
Unreserved:						
General Fund	1,260,634					1,260,634
Special Revenue Funds		96,026	534,881		223,280	854,187
Total Fund Balances	<u>\$ 1,629,698</u>	<u>\$ 117,622</u>	<u>\$ 534,949</u>	<u>\$ 4,537</u>	<u>\$ 224,985</u>	<u>\$ 2,511,791</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,511,791
Receivable	364,000
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds.	10,048,487
Accumulated Depreciation	(4,163,709)
Asset Held For Resale	205,800
Internal Service Fund Is Used by Management to Charge the Cost of Health	
Insurance to Individual Funds. The Assets and Liabilities Are Included in	
Governmental Activities on the Statement of Net Assets.	723
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore,	
Is Not Reported In The Funds.	
Due Within One Year - Bond and Financing Obligation Principal Payments	(45,296)
Due In More Than One Year - Bond, Bond Anticipation Note, and Financing Obligation Principal Payment	(1,544,281)
Net Assets Of Governmental Activities	<u>\$ 7,377,515</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Local Government Economic Assistance Fund	New Courthouse Fund
REVENUES				
Taxes	\$ 3,065,281	\$	\$	\$
In Lieu Tax Payments	14,633			
Excess Fees	162,389			
Licenses and Permits	41,295			
Intergovernmental	1,117,334	841,665	329,527	
Charges for Services	280,912			
Miscellaneous	516,837	103,191	54,897	
Interest	13,711	3,002	5,607	
Total Revenues	<u>5,212,392</u>	<u>947,858</u>	<u>390,031</u>	
EXPENDITURES				
General Government	1,171,588			
Protection to Persons and Property	1,125,617		275,946	
General Health and Sanitation	873,817		3,300	
Social Services	206,181		16,300	
Recreation and Culture	347,537		3,548	
Roads		1,523,470		
Airports	82,521			
Debt Service		226,538		
Capital Projects				1,064,063
Administration	956,453	163,342		
Total Expenditures	<u>4,763,714</u>	<u>1,913,350</u>	<u>299,094</u>	<u>1,064,063</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>448,678</u>	<u>(965,492)</u>	<u>90,937</u>	<u>(1,064,063)</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	(681,921)			(130,500)
Transfers From Other Funds	130,500	546,000		5,421
Proceeds From Sale of Assets Held For Resale		179,352		
Debt Issuance		205,800		1,169,341
Total Other Financing Sources (Uses)	<u>(551,421)</u>	<u>931,152</u>		<u>1,044,262</u>
Net Change in Fund Balances	(102,743)	(34,340)	90,937	(19,801)
Fund Balances - Beginning (Restated)	1,732,441	151,962	444,012	24,338
Fund Balances - Ending	<u>\$ 1,629,698</u>	<u>\$ 117,622</u>	<u>\$ 534,949</u>	<u>\$ 4,537</u>

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 39,032	\$ 3,104,313
	14,633
	162,389
	41,295
175,622	2,464,148
7,755	288,667
7,048	681,973
2,543	24,863
<u>232,000</u>	<u>6,782,281</u>
	1,171,588
353,504	1,755,067
	877,117
	222,481
	351,085
	1,523,470
	82,521
	226,538
	1,064,063
8,459	1,128,254
<u>361,963</u>	<u>8,402,184</u>
<u>(129,963)</u>	<u>(1,619,903)</u>
	(812,421)
130,500	812,421
	179,352
	1,375,141
<u>130,500</u>	<u>1,554,493</u>
537	(65,410)
<u>224,448</u>	<u>2,577,201</u>
<u>\$ 224,985</u>	<u>\$ 2,511,791</u>

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (65,410)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Costs Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	1,838,198
Depreciation Expense	(281,099)
Asset Held For Resale Disposed	(197,650)
Purchase Of Asset Held For Resale	205,800
The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Principal Payments Are Expenses In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However Have No Effect On Net Assets.	
Debt Issuance	(1,375,141)
Financing Obligations Principal Payments	308,666
Internal Service Funds Are Used By Management To Charge The Cost Of Health Insurance To Individual Funds. The Net Revenues (Expenses) Of This Fund Are Reported With Governmental Activities.	
	(230)
Payments Received On Notes Receivable Provide A Current Financial Resource To Governmental Funds, While Reducing The Receivable At The Governmnet-Wide Level. Therefore, The Activity Has Been Eliminated On The Statement Of Activities.	
	<u>(3,600)</u>
Change in Net Assets of Governmental Activities	<u>\$ 429,534</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2009

HANCOCK COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
	Airport Board Fund	Insurance Deductible Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 346,163	\$ 723
Total Current Assets	<u>346,163</u>	<u>723</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated		
Land	1,627,176	
Construction in Progress	6,561,799	
Equipment	30,851	
Total Noncurrent Assets	<u>8,219,826</u>	
Total Assets	<u>8,565,989</u>	<u>723</u>
Liabilities		
Current Liabilities:		
Bonds Payable	65,000	
Long Term Liabilities:		
Bonds Payable	730,000	
Total Liabilities	<u>795,000</u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	7,424,826	
Restricted		723
Unrestricted	346,163	
Total Net Assets	<u>\$ 7,770,989</u>	<u>\$ 723</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
	Airport Board Fund	Insurance Deductible Fund
Operating Revenues		
Other Receipts	\$ 2,397	\$
Total Operating Revenues	<u>2,397</u>	
Operating Expenses		
Depreciation	3,051	
Supplies	7,064	
Miscellaneous	32	
Administration and Claims	500	230
Total Operating Expenses	<u>10,647</u>	<u>230</u>
Operating Income (Loss)	<u>(8,250)</u>	<u>(230)</u>
Nonoperating Revenues (Expenses)		
Interest and Investments	7,347	
Intergovernmental	542,904	
Interest Expense	<u>(37,238)</u>	
Net Nonoperating Revenues (Expenses)	<u>513,013</u>	
Change In Net Assets	504,763	(230)
Total Net Assets - Beginning (Restated)	<u>7,266,226</u>	<u>953</u>
Total Net Assets - Ending	<u><u>\$ 7,770,989</u></u>	<u><u>\$ 723</u></u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HANCOCK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
	Airport Board Fund	Insurance Deductible Fund
Cash Flows From Operating Activities		
Cash Received From Others	\$ 2,397	\$
Cash Payments To Vendors	(7,096)	
Cash Payments for Administration and Claims	(500)	(230)
Net Cash Provided By Operating Activities	(5,199)	(230)
Cash Flows From Capital and Related Financing Activities		
Interest Paid On Capital Debt	(37,238)	
Capital Contributions	542,904	
Principal Payment On Capital Debt	(65,000)	
Construction of Capital Assets	(917,595)	
Purchase of Capital Assets	(33,902)	
Net Cash (Used) By Capital and Related Financing Activities	(510,831)	
Cash Flows From Investing Activities		
Interest and Investment Earnings	7,347	
Net Cash Provided By Investing Activities	7,347	
Net Increase in Cash and Cash Equivalents	(508,683)	(230)
Cash and Cash Equivalents - July 1, 2008 (Restated)	854,846	953
Cash and Cash Equivalents - June 30, 2009	\$ 346,163	\$ 723
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities		
Operating Income (Loss)	\$ (8,250)	\$ (230)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities - Depreciation Expense	3,051	
Total Cash Provided By Operating Activities	\$ (5,199)	\$ (230)

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Hancock County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Hancock County Airport Board

The Hancock County Airport Board is not legally separate from the Hancock County Fiscal Court. The Fiscal Court has the ability to impose its will on the governing board. Financial information for the Airport Board is blended within Hancock County's financial statements. All activities of the Airport Board are accounted for within a major enterprise fund.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Hancock County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the Hancock County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The primary sources of revenue are state grants and coal and mineral severance taxes. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures.

New Courthouse Fund - The County created a fund to help account for the funds received from a bond issue and to account for expenses related to the construction of the new Judicial Center.

The primary government also has the following non-major funds: Jail Fund and E911 Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and E911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

New Courthouse Fund - The County created a fund to help account for the funds received from a bond issue and to account for expenses related to the construction of the new Judicial Center.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Fund:

The principal operating revenues of the county's enterprise fund is charges to customers for sales and services at the Airport. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Airport Board Fund - The primary purpose of this fund is to account for the activities of the airport. The primary sources of revenue for this fund are from charges to customers and federal aviation grants.

Internal Service Fund:

The primary government reports the following internal service fund:

Insurance Deductible Fund - This fund accounts for services provided to the county's employees as a benefit. The Insurance Deductible Fund of the fiscal court is reported as an internal service fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized for Governmental Funds but is capitalized to Proprietary Funds. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings	\$ 10,000	10-40
Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Bridges	\$ 5,000	10-50
Infrastructure - Roads	\$ 10,000	10-25

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Hancock County Airport Board (blended component unit) funds are not budgeted. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Note 2. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Receivable

Hancock County Fiscal Court loaned \$364,000 to World Source Industries, Inc., on June 14, 1990 for the purpose of land acquisition. Arvin Roll Coater, Inc. had assumed this loan and merged with Arvin Meritor in December 2004. Terms of the agreement stipulate a one-time payment on June 14, 2005; however, as of June 30, 2009 the payment hasn't been made and is in dispute. As of June 30, 2009, the principal balance remaining due was \$364,000.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Assets Held For Resale

Assets held for resale activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Assets Held For Resale:				
Vehicles	\$ 197,650	\$ 205,800	\$ 197,650	\$ 205,800
Total Assets Held For Resale	\$ 197,650	\$ 205,800	\$ 197,650	\$ 205,800

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 862,102	\$	\$	\$ 862,102
Construction In Progress		1,058,642		1,058,642
Total Capital Assets Not Being Depreciated	862,102	1,058,642		1,920,744
Capital Assets, Being Depreciated:				
Buildings	3,060,115	75,750		3,135,865
Other Equipment	1,508,465	273,786		1,782,251
Vehicles	1,970,081	189,647		2,159,728
Infrastructure	809,526	240,373		1,049,899
Total Capital Assets Being Depreciation	7,348,187	779,556		8,127,743
Less Accumulated Depreciation For:				
Buildings	(1,223,563)	(65,833)		(1,289,396)
Other Equipment	(957,093)	(119,437)		(1,076,530)
Vehicles	(1,538,242)	(43,407)		(1,581,649)
Infrastructure	(163,712)	(52,422)		(216,134)
Total Accumulated Depreciation	(3,882,610)	(281,099)		(4,163,709)
Total Capital Assets, Being Depreciated, Net	3,465,577	498,457		3,964,034
Governmental Activities Capital Assets, Net	\$ 4,327,679	\$ 1,557,099	\$ 0	\$ 5,884,778

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,627,176	\$	\$	\$ 1,627,176
Construction In Progress	5,644,204	917,595		6,561,799
Total Capital Assets Not Being Depreciated	7,271,380	917,595		8,188,975
Capital Assets, Being Depreciated:				
Other Equipment		33,902		33,902
Total Capital Assets Being Depreciated		33,902		33,902
Less Accumulated Depreciation For:				
Other Equipment		(3,051)		(3,051)
Total Accumulated Depreciation		(3,051)		(3,051)
Total Capital Assets, Being Depreciated, Net		30,851		30,851
Business-Type Activities Capital Assets, Net	\$ 7,271,380	\$ 948,446	\$ 0	\$ 8,219,826

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 71,295
Protection to Persons and Property	43,077
Social Services	13,816
Recreation and Culture	3,060
Roads, Including Depreciation of General Infrastructure Assets	149,851
Total Depreciation Expense - Governmental Activities	<u>\$ 281,099</u>
<u>Business-Type Activities</u>	
Airport Board	<u>\$ 3,051</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,051</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Short-term Debt

A. Mack Dump Trucks

Hancock County Fiscal Court entered into a short-term lease with the Kentucky Association of Counties Leasing Trust to finance the purchase of two Mack dump trucks. The lease is for \$197,650 at an interest rate of 4.52% per annum. Interest payments are due by the 20th of each month. The entire principal amount is due on September 20, 2008 making this a short-term financing obligation. The total principal balance was \$0 as of June 30, 2009.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 197,650</u>	<u>\$</u>	<u>\$ 197,650</u>	<u>\$</u>	<u>\$</u>
Governmental Activities					
Short-term Liabilities	<u>\$ 197,650</u>	<u>\$ 0</u>	<u>\$ 197,650</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 7. Long-term Debt

A. Mack Dump Trucks

Hancock County Fiscal Court entered into a long-term lease with the Kentucky Association of Counties Leasing Trust to finance the purchase of two Mack dump trucks on December 15, 2008. The lease is for \$205,800 at an interest rate of 3.83% per annum. Interest payments are due by the 20th of each month. The entire principal amount is due on December 20, 2013. The total principal balance was \$205,800 as of June 30, 2009.

<u>Fiscal Year Ended June 30</u>	<u>Principal Amount</u>	<u>Scheduled Interest</u>
2010	\$	\$ 7,630
2011	50,000	7,022
2012	50,000	5,155
2013	50,000	3,285
2014	<u>55,800</u>	<u>1,180</u>
Totals	<u>\$ 205,800</u>	<u>\$ 24,272</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long-term Debt (Continued)

B. Excavator

Hancock County Fiscal Court borrowed \$108,445 from Green River Area Development District for the purchase of an excavator. Terms of the agreement stipulate a five year repayment schedule at interest of 4%. The Fiscal Court is in substantial compliance with the terms of the agreement. As of June 30, 2009, the principal balance was \$88,439. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal Amount</u>	<u>Scheduled Interest</u>
2010	\$ 20,814	\$ 3,331
2011	21,997	1,517
2012	22,537	977
2013	23,091	423
Totals	<u>\$ 88,439</u>	<u>\$ 6,248</u>

C. Airport Construction Note

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for construction at the airport. Terms of the agreement stipulate a four year repayment schedule at interest of 4.25%. The Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2009, the principal balance was \$75,997. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal Amount</u>	<u>Scheduled Interest</u>
2010	\$ 24,482	\$ 3,230
2011	25,522	2,189
2012	25,993	1,105
Totals	<u>\$ 75,997</u>	<u>\$ 6,524</u>

D. Judicial Center Construction Bond Anticipation Note, Series 2007

Hancock County Fiscal Court issued a Bond Anticipation Note, Series 2007 for \$2,000,000 thru Hancock Bank and Trust Company on December 10, 2007 to finance a portion of the costs of acquisition, development, construction and installation of a new judicial center building. As of July 1, 2008, Hancock County Fiscal Court had drawn down \$50,000. During the fiscal year June 30, 2009, the Hancock County Fiscal Court had drawn down an additional \$1,169,341. The principal balance at June 30, 2009 was \$1,219,341. The note bears interest from the date of each advance of proceeds and is payable on December 1, 2008 and on each June 1 and December 1 until it matures. The rate per annum is 3.69%. The bond will mature December 1, 2009.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Long-term Debt (Continued)

E. Airport Board Bond Issue (Business-Type Activities)

Hancock County Airport Board issued bonds totaling \$860,000 thru the Kentucky Public Agency Development Trust & Lease Acquisition Program Series 2007 A1 on September 18, 2007 for the purpose of building a terminal for the airport. The coupon rate is 4.5% and it was issued at par value. These bonds will mature September 1, 2017. The principal balance at June 30, 2009 was \$795,000. The future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal Amount</u>	<u>Scheduled Interest</u>
2010	\$ 65,000	\$ 34,313
2011	70,000	31,275
2012	70,000	28,125
2013	75,000	24,863
2014	80,000	21,375
2015-2018	<u>435,000</u>	<u>46,012</u>
Totals	<u>\$ 795,000</u>	<u>\$ 185,963</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 275,452	\$ 205,800	\$ 111,016	\$ 370,236	\$ 45,296
General Obligation Bond					
Anticipation Note	<u>50,000</u>	<u>1,169,341</u>		<u>1,219,341</u>	
Governmental Activities					
Long-term Liabilities	<u>\$ 325,452</u>	<u>\$ 1,375,141</u>	<u>\$ 111,016</u>	<u>\$ 1,589,577</u>	<u>\$ 45,296</u>
<u>Business-Type Activities:</u>					
General Obligation Bonds	<u>\$ 860,000</u>	<u>\$</u>	<u>\$ 65,000</u>	<u>\$ 795,000</u>	<u>\$ 65,000</u>
Business-Type Activities					
Long-term Liabilities	<u>\$ 860,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 795,000</u>	<u>\$ 65,000</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2007 was \$285,913, FY 2008 was \$266,633, and FY 2009 was \$251,908.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2009, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Postclosure Costs

The Hancock County Landfill was closed on June 20, 1995. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$205,309 as of June 30, 2009, or \$12,077 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 11. Prior Period Adjustments

Beginning net assets of governmental activities has been restated by \$43,005 for prior year errors and omissions.

Beginning balance of the General Fund has been restated by \$58,020 for prior year omissions and transfer of balance from the LGEA Fund.

Beginning balance of the LGEA Fund has been restated by (\$14,602) for transfer of balance to the General Fund.

Beginning net assets of business-type activities and the Airport Board Fund have been restated by \$81 for prior year errors.

Note 12. Fund Balance – Deficit

As of June 30, 2009, the Jail Fund had a deficit in unreserved fund balance in the amount of \$860. This deficit was due to the existence of encumbrances in the amount of \$1,560. The deficit was eliminated with the deposit of funds after June 30, 2009.

Note 13. Subsequent Event

The Hancock County Improvement Corporation issued Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2009 in the amount of \$11,565,000. The proceeds of the Bonds will be used for the construction of the Judicial Center.

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HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,939,931	\$ 2,939,931	\$ 3,065,281	\$ 125,350
In Lieu Tax Payments	15,600	15,600	14,633	(967)
Excess Fees	101,950	101,950	162,389	60,439
Licenses and Permits	23,600	23,600	41,295	17,695
Intergovernmental Revenue	1,688,390	1,688,390	1,117,334	(571,056)
Charges for Services	211,425	211,425	280,912	69,487
Miscellaneous	124,300	124,300	516,837	392,537
Interest	20,500	20,500	13,711	(6,789)
Total Revenues	<u>5,125,696</u>	<u>5,125,696</u>	<u>5,212,392</u>	<u>86,696</u>
EXPENDITURES				
General Government	1,261,080	1,329,501	1,171,588	157,913
Protection to Persons and Property	1,209,809	1,213,243	1,125,617	87,626
General Health and Sanitation	1,137,339	1,150,618	873,817	276,801
Social Services	210,258	233,774	206,181	27,593
Recreation and Culture	363,610	380,899	347,537	33,362
Airports	193,500	193,500	82,521	110,979
Administration	1,545,731	1,097,034	956,453	140,581
Total Expenditures	<u>5,921,327</u>	<u>5,598,569</u>	<u>4,763,714</u>	<u>834,855</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(795,631)</u>	<u>(472,873)</u>	<u>448,678</u>	<u>921,551</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(718,002)	(718,002)	(681,921)	36,081
Transfers From Other Funds			130,500	130,500
Total Other Financing Sources (Uses)	<u>(718,002)</u>	<u>(718,002)</u>	<u>(551,421)</u>	<u>166,581</u>
Net Changes in Fund Balance	(1,513,633)	(1,190,875)	(102,743)	1,088,132
Fund Balance - Beginning (Restated)	<u>1,513,633</u>	<u>1,513,633</u>	<u>1,732,441</u>	<u>218,808</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 322,758</u>	<u>\$ 1,629,698</u>	<u>\$ 1,306,940</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 804,911	\$ 804,911	\$ 841,665	\$ 36,754
Miscellaneous	279,552	279,552	282,543	2,991
Interest	5,550	5,550	3,002	(2,548)
Total Revenues	<u>1,090,013</u>	<u>1,090,013</u>	<u>1,127,210</u>	<u>37,197</u>
EXPENDITURES				
Roads	1,271,083	1,343,907	1,317,670	26,237
Debt Service	232,658	232,658	226,538	6,120
Administration	257,657	184,833	163,342	21,491
Total Expenditures	<u>1,761,398</u>	<u>1,761,398</u>	<u>1,707,550</u>	<u>53,848</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(671,385)</u>	<u>(671,385)</u>	<u>(580,340)</u>	<u>91,045</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>526,775</u>	<u>526,775</u>	<u>546,000</u>	<u>19,225</u>
Total Other Financing Sources (Uses)	<u>526,775</u>	<u>526,775</u>	<u>546,000</u>	<u>19,225</u>
Net Changes in Fund Balance	(144,610)	(144,610)	(34,340)	110,270
Fund Balance - Beginning	<u>144,610</u>	<u>144,610</u>	<u>151,962</u>	<u>7,352</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,622</u>	<u>\$ 117,622</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 75,100	\$ 75,100	\$ 329,527	\$ 254,427
Miscellaneous	100	100	54,897	54,797
Interest	4,050	4,050	5,607	1,557
Total Revenues	79,250	79,250	390,031	310,781
EXPENDITURES				
General Government				
Protection to Persons and Property	1,100	275,997	275,946	51
General Health and Sanitation	3,300	3,300	3,300	
Social Services	23,500	23,500	16,300	7,200
Recreation and Culture	5,800	5,800	3,548	2,252
Roads	367,075	367,075		367,075
Total Expenditures	400,775	675,672	299,094	376,578
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(321,525)	(596,422)	90,937	687,359
Net Changes in Fund Balance	(321,525)	(596,422)	90,937	687,359
Fund Balance - Beginning (Restated)	321,525	321,525	444,012	122,487
Fund Balance - Ending	\$ 0	\$ (274,897)	\$ 534,949	\$ 809,846

HANCOCK COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation – Road Fund

Total Revenues - Budgetary Basis	\$ 1,127,210
Less: Proceeds from Sale of Assets Held For Resale	<u>(179,352)</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 947,858</u></u>
 Total Expenditures - Budgetary Basis	 \$ 1,707,550
Plus: Financing Obligations Expenditures Roads	<u>205,800</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,913,350</u></u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ 546,000
Plus: Proceeds from Sale of Assets Held for Resale	179,352
Plus: Financing Obligations Proceeds	<u>205,800</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ 931,152</u></u>

**HANCOCK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

HANCOCK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Jail Fund	E911 Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 700	\$ 224,285	\$ 224,985
Total Assets	<u>700</u>	<u>224,285</u>	<u>224,985</u>
FUND BALANCES			
Reserved for:			
Encumbrances	1,560	145	1,705
Unreserved:			
Special Revenue Fund	<u>(860)</u>	<u>224,140</u>	<u>223,280</u>
Total Fund Balances	<u>\$ 700</u>	<u>\$ 224,285</u>	<u>\$ 224,985</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Jail Fund	E911 Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$ 39,032	\$ 39,032
Intergovernmental	82,502	93,120	175,622
Charges for Services	7,755		7,755
Miscellaneous	7,048		7,048
Interest		2,543	2,543
Total Revenues	<u>97,305</u>	<u>134,695</u>	<u>232,000</u>
EXPENDITURES			
Protection to Persons and Property	219,988	133,516	353,504
Administration	<u>8,459</u>		<u>8,459</u>
Total Expenditures	<u>228,447</u>	<u>133,516</u>	<u>361,963</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(131,142)</u>	<u>1,179</u>	<u>(129,963)</u>
Other Financing Sources (Uses)			
Transfer From Other Funds	<u>130,500</u>		<u>130,500</u>
Total Other Financing Sources (Uses)	<u>130,500</u>		<u>130,500</u>
Net Change in Fund Balance	(642)	1,179	537
Fund Balances - Beginning	1,342	223,106	224,448
Fund Balances - Ending	<u><u>\$ 700</u></u>	<u><u>\$ 224,285</u></u>	<u><u>\$ 224,985</u></u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

HANCOCK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2009

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration</u>		
Airport Improvement Program (CFDA # 20.106)	***	\$ 346,971
<u>Federal Highway Administration</u>		
National Recreation Trails Program (CFDA # 20.219)		14,432
Total U.S. Department of Transportation		<u>361,403</u>
<u>U.S. Election Commission</u>		
Passed-Through State Board of Elections Help America Vote Act Requirements Payments (CFDA #90.401)	N/A	45,000
<u>U.S. Department of Health and Human Services</u>		
Administration On Aging Passed-Through State Department Of Health And Human Services Special Programs For The Aging, Title III, Part B and Part C Grants For Supportive Services And Senior Centers (CFDA# 93.044)		13,380
Nutrition Services (CFDA# 93.045)		5,944
Substance Abuse and Mental Health Services Administration Drug Free Communities Support Program (CFDA# 93.276)		100,623
Total U.S. Department of Health and Human Services		<u>119,947</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Disaster Grants-Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	***	FEMA-1802 DR KY FEMA-1818 DR KY 512,997
Emergency Management Performance Grants (CFDA #97.042)		9,468
Homeland Security Grant Program (CFDA #97.067)		19,200
Total U.S. Department Of Homeland Security		<u>541,665</u>
Total Expenditures of Federal Awards		<u>\$ 1,068,015</u>

*** Tested as major program

HANCOCK COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hancock County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated June 7, 2010. Hancock County's financial statements are prepared in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hancock County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hancock County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified curtailed deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies listed above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Hancock County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Hancock County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Hancock County Fiscal Court, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

June 7, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Hancock County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Hancock County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hancock County's management. Our responsibility is to express an opinion on Hancock County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hancock County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hancock County's compliance with those requirements.

In our opinion, Hancock County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our audit procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-3.



Report On Compliance With Requirements
To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Hancock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hancock County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hancock County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-2, 2009-3, 2009-4, and 2009-5 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider all the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Hancock County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 7, 2010

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Hancock County, Kentucky.
2. Two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report. These deficiencies are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Hancock County were disclosed during the audit.
4. Four significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report. These deficiencies are considered to be material weaknesses.
5. The auditor's report on compliance for the audit of the major federal awards programs for Hancock County expresses an unqualified opinion.
6. There are four audit findings relative to the major federal awards programs for Hancock County reported in Part C of this schedule.
7. The programs tested as major programs were: Disaster Grants-Public Assistance (Presidentially Declared Disasters) (CFDA# 97.036) and Airport Improvement Program (CFDA # 20.106)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Hancock County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

2009-1 The Hancock County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Bank Reconciliations, Revenues, And Payroll

During the audit we noted there is a lack of segregation of duties over cash, bank reconciliations, revenue, and payroll. The Treasurer performs all accounting functions over cash and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. The Treasurer also prepares payroll, uploads payments to the bank, and then reconciles payroll amounts listed on the quarterly financial statement. There were no documented compensating controls to offset the lack of segregation of duties or reduce the control deficiency to an acceptable level. We recommend the Fiscal Court segregate incompatible duties or implement the following compensating internal controls.

1. Have someone independent of the Treasurer's office review and re-compute the bank reconciliation. Outstanding items should be reviewed. The review/re-computation should be documented.
2. Have someone independent of the Treasurer's office compare receipts listing to the daily check out sheets and to the receipts ledger to determine all receipts are properly accounted for. The review should be documented.
3. Have someone independent of the Treasurer's office trace balances on the quarterly reports to the general ledger in order to validate amounts reported on the financial statements. This process should be documented.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued)

2009-1 The Hancock County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Bank Reconciliations, Revenues, And Payroll

4. Have someone independent of the Treasurer's office review payroll prior to submission to the bank as well as review amounts posted to the ledgers.

Judge/Executive's Response: Additional steps in our procedures will be considered to meet the recommendations of the auditors to the best of our ability. We recognize the importance of segregation of duties. Due to having a small office staff, it is hard; but we do our best to continue working on internal controls.

2009-2 The Hancock County Airport Board Did Not Establish A Complete Accounting System

During the audit we noted the Airport Board did not have a complete accounting system in place during fiscal year ended June 30, 2009. This accounting system should have been able to produce financial reports that include all receipts and disbursements and activities (including capital assets) of the Airport Board. Additionally, checking accounts were not reconciled in a timely manner. The Airport Board also did not submit monthly reports to the Fiscal Court. A local accountant has been hired to prepare financial reports, but he was not hired until after June 2009. We recommend the Airport Board establish and maintain a complete accounting system.

Judge/Executive's Response: None.

Airport Board's Response: None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2009-2 The Hancock County Airport Board Did Not Establish A Complete Accounting System

Federal Program: CFDA 20.106

Federal Agency: U.S. Department of Transportation/Federal Aviation Administration

Compliance Area: Cash Management and Reporting

Amount of Questioned Costs: \$0

See Section B Findings – Financial Statement Audit to see comment in its entirety.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2009-3 The Hancock County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - Activities Allowed Or Unallowed/Allowable Costs And Reporting

Federal Program: CFDA 97.036
 Federal Agency: U.S. Department of Homeland Security
 Pass-through Agency: Department of Military Affairs
 Compliance Area: Activities Allowed/Allowable Costs
 Amount of Questioned Costs: \$2,304

During testing of internal controls we noted no documentation of monitoring of Activities Allowed/Allowable Costs and Reporting which was being handled by the various employees of Hancock County. The County Treasurer provided invoices for a small number of expenditures which were paid by check by the County. However, the bulk of the expenditures charged to FEMA did not undergo a verification or approval process prior to payment. OMB Circular A-133 requires internal controls be established over compliance requirements that are material to the major program. The weakness in oversight led to a duplicate request for reimbursement for the hours of the Volunteer Rescue Squad Assistant Chief in the amount of \$2,304.

We recommend the Fiscal Court require internal controls for monitoring OMB Circular A-133 requirements be established and documented to in accordance with OMB Circular A-133 compliance requirements. We also recommend the Fiscal Court consult the Kentucky Department of Military Affairs for possible reimbursement.

Judge/Executive's Response: Steps to insure that the monitoring of these requirements are being discussed and will be implemented to the best of our ability.

Airport Board's Response: None.

2009-4 The Hancock County Airport Board Has A Lack Of Internal Controls Over Monitoring Of Activities Allowed/Allowable Costs

Federal Program: CFDA 20.106
 Federal Agency: U.S. Department of Transportation/Federal Aviation Administration
 Compliance Area: Activities Allowed/Allowable Costs
 Amount of Questioned Costs: \$0

During testing of internal controls over Activities Allowed/Allowable Costs, we noted that there was no documentation of monitoring of allowable activities and costs by the Airport Board. The Airport Board Treasurer received payment instructions from engineers and then made payments. OMB A-133 requires internal controls over monitoring of Activities Allowed/Allowable Costs. There was no documentation of Board oversight or review of these payments prior to being made. The Airport Board Director or designee should have reviewed expenditures prior to payment and initialed or otherwise documented this review. We recommend the Airport Board implement internal controls over monitoring activities allowed/allowable costs and document the process used.

Judge/Executive's Response: None.

Airport Board's Response: None.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2009-5 The Hancock County Airport Board Did Not Establish Procedures To Ensure Compliance
 With Davis Bacon Or Debarment/Suspension Compliance Requirements

Federal Program: CFDA 20.106

Federal Agency: U.S. Department of Transportation/Federal Aviation Administration

Compliance Area: Davis Bacon and Debarment and Suspension

Amount of Questioned Costs: \$0

During testing of compliance requirements, auditor noted that neither the Airport Board nor the engineer hired as a grant manager documented the performance of interviews of the contractor's employees to determine Davis Bacon compliance nor did they document checking the Excluded Parties Listing System for debarred or suspended vendors. OMB A-133 requires monitoring of all material compliance requirements to ensure compliance. We recommend the Airport Board establish procedures to ensure compliance with all OMB A-133 compliance requirements.

Judge/Executive's Response: None.

Airport Board's Response: None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2008-02 The Airport Board Does Not Have An Accounting System. Amount of Questioned Costs
\$0. This comment has not been corrected. See 2009-2.

2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing. Amount of Questioned Costs
\$0. This comment has not been corrected. See 2009-2.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND LOCAL ECONOMIC DEVELOPMENT
PROGRAMS**

HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

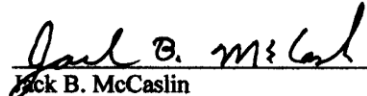
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

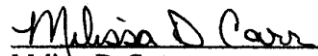
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Local Government Economic Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Jack B. McCaslin
County Judge/Executive



Melissa D. Carr
County Treasurer

